

How to Understand Indexed Account Crediting for Life Insurance Products

Our indexed universal life insurance products offer a variety of indexed accounts to which policyholders can allocate their premiums. It's important to understand how indexed interest crediting works, the factors that go into the crediting rate calculation, and what can cause those factors to change. **So, let's start with the basics.**

What is an indexed account?

We offer indexed accounts that earn interest based on the change in the performance of an equity market index from one point in time to another — generally 12 months later. Each indexed account ties to a specific market index. An index is a representation of a market sector, so the policyholder's money is not actually invested in the market index.

How is the crediting rate calculated for an indexed account?

The crediting rates for our indexed accounts are determined by taking the market index performance and applying four factors: floors, caps, spread rates, and participation rates. Floors are guaranteed, caps are subject to change, and spreads and participation rates may be guaranteed or subject to change, depending on the account.



Floor:

A minimum guaranteed credited interest rate that provides downside protection. Different accounts have different floors.



Cap:

A maximum credited interest rate. Different accounts have different caps and there are also accounts that do not have caps.



Spread rate:

The amount deducted from the point-to-point growth in the market index. Spread rates are typically found on indexed accounts that have higher or no caps.



Participation rate:

A percentage multiplied by the point-to-point change in the market index. If the indexed account has a spread, the participation rate is applied after the spread is deducted.

Caps, spreads, and non-guaranteed participation rates are locked in for either 12 or 24 months when the premiums are allocated to the indexed account and upon renewal of an indexed account.¹ Additionally, some indexed accounts include asset charges that can allow for higher upside potential in exchange for an asset charge deducted from funds allocated to the specific indexed account.

¹In some cases the lock-in period may be 11 or 23 months, depending on when premiums are received.

Now let's get down to how the crediting process works.

- ✓ The policyholder allocates premium to their choice of indexed account(s).
- ✓ A portion of the premium covers the cost of insurance and the balance is invested in Penn Mutual's general account portfolio.
- ✓ We receive investment income ("return yield").
- ✓ The net investment income¹ is used to credit the guaranteed account floor and the balance is used to purchase options.
- ✓ When the options mature, the return is used to credit indexed interest to our policyholders.
- ✓ Policies that include the Policy Value Enhancement (PVE) provision will also be credited with a PVE, regardless of how the indexed account performs. The PVE ensures the policy will receive positive crediting.

What causes changes to an indexed account's cap, participation, and spread rate?

It comes down to two factors: The amount available to purchase options (which is based on interest earned from investments) and the cost of options (which is based on market volatility).

Long-Term Interest Rate Environment		Market Volatility		Outcome
Low interest rates Result: Penn Mutual earns less on its investments, so the amount available to purchase options is smaller.	and/or	High volatility Result: The cost of options goes up.	=	Lower caps Lower participation rates ¹ Higher spread rates
High interest rates Result: Penn Mutual makes more on its investments, so the amount available to purchase options is bigger.	and/or	Low volatility Result: The cost of options goes down.	=	Higher caps Higher participation rates ² Lower spread rates

It's important to note that caps, participation rates, and spread rates are based on the price of options, so an increase in interest rates doesn't result in an immediate increase to the crediting of an indexed account. Uncapped accounts will also typically be more sensitive to market volatility than capped accounts since option costs for uncapped accounts have bigger price changes when the market fluctuates.

 **For questions or more information, contact your financial professional.**

¹Net of product margin.

²Applies only to accounts with non-guaranteed participation rates.

The information in this flyer is intended to provide a general understanding of Penn Mutual's indexed universal (IUL) life insurance crediting strategies. All guarantees are based on the claims-paying ability of the issuer. IUL products are issued by The Penn Insurance and Annuity Company, a wholly-owned subsidiary of The Penn Mutual Life Insurance Company. Policy form numbers may vary by state. Products may not be available in all states, and are not offered in New York.

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